

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2341-01  
Bill No.: SB 2  
Subject: Taxation and Revenue - Income  
Type: Original  
Date: September 10, 2003

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	\$11,000,000	\$11,000,000
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$0</b>	<b>\$11,000,000</b>	<b>\$11,000,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 4 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this bill would disallow the deduction for property tax paid to another state on nonresident tax returns. Based on data from the IRS Statistics of Income, BAP makes the following assumptions:

- In Missouri in 2001, those with itemized deductions who claim a real estate (property) tax deduction have an average deduction of \$1,677 and 91% of those with itemized deductions claim a real estate tax deduction.
- In 2001, there were 120,000 nonresident returns that claimed itemized deductions.
- Assuming that 91% of these returns claim a real estate (property) tax deduction, there would be 109,200 nonresident returns claiming a \$1,677 deduction for real estate (property) tax paid to another state.

Based on these assumptions, Missouri would gain about \$183 million in taxable income by disallowing this deduction. Assuming that this would be taxed at the 6% tax rate, the revenue gain would be about \$11 million.

ASSUMPTION (continued)

Assuming this provision would not be effective until tax year 2004, the revenue impact would be manifest upon the filing of returns in FY 2005 and each fiscal year thereafter.

BAP assumes property taxes paid to other states will be greater in 2004 relative to 2001, thus increasing the impact of this proposal, but BAP does not have the requisite data to make such an estimate. This bill would have no impact on BAP.

Officials of the **Department of Revenue (DOR)** state this legislation requires nonresident taxpayers to include in the calculation of Missouri nonresident adjusted gross income any property taxes paid to another state. This legislation will become effective on January 1, 2004.

Taxpayers will be required to add any property taxes paid to another state on the Nonresident Income Schedule. The Division of Taxation will add another line to that schedule, but does not currently key the information on the schedule. Therefore, there is no additional impact to DOR.

**This proposal could increase Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2004 (9 Mo.)	FY 2005	FY 2006
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**GENERAL REVENUE FUND**

Income - General Revenue

Disallowance of property tax paid to other states on nonresident tax returns	<u>\$0</u>	<u>\$11,000,000</u>	<u>\$11,000,000</u>
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<b>ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>\$11,000,000</u></b>	<b><u>\$11,000,000</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (9 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

Currently, in certain cases, a nonresident may receive an itemized deduction on their federal return for property taxes paid to another state. Current Missouri law does not require that this amount be "added-back" on the Missouri return. Therefore, the deduction for property taxes paid to another state carries through to apply against the Missouri income tax of a nonresident. This act eliminates this deduction by requiring nonresidents to add-back the amount of the federal deduction on their Missouri tax return.

This legislation contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
Division of Budget and Planning



Mickey Wilson, CPA  
Director  
September 10, 2003